

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>City of Bad Axe</b>	County <b>Huron</b>
Audit Date <b>6/30/04</b>	Opinion Date <b>12/10/04</b>	Date Accountant Report Submitted to State: <b>12/29/04</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

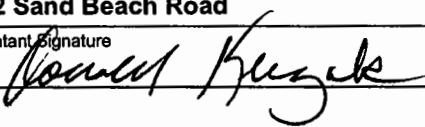
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Hyzer, Hill, Kuzak &amp; Co. P.C.</b>			
Street Address <b>1242 Sand Beach Road</b>	City <b>Bad Axe</b>	State <b>MI</b>	ZIP <b>48413</b>
Accountant Signature 		Date <b>12/29/04</b>	

**City of Bad Axe, Michigan**

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**Financial Report  
for the Fiscal Year ended  
June 30, 2004**

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# **HYZER, HILL, KUZAK & CO., P.C.**

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## **Independent Auditor's Report**

To the Honorable Mayor and  
Members of the City Council  
City of Bad Axe, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Bad Axe, Michigan as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Bad Axe, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Bad Axe, Michigan as of June 30, 2004 and the respective changes in the financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, retirement system schedule of funding progress and budgetary comparison schedules as identified in the table of contents are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Honorable Major  
and Members of the City Council  
City of Bad Axe, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Bad Axe, Michigan's basic financial statements. The accompanying other supplemental information as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 14, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and related statements, as of July 1, 2003.

*Hyper, Hill, Hughes & Co. P.C.*

December 10, 2004

As management of the City of Bad Axe, Michigan, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here.

### Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$8,228,785 (*net assets*). Of this amount, \$3,826,617 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors
- The government's total net assets increased by \$396,763.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,430,552. Over seventy percent of this total amount, or \$998,769 is *available for spending* at the government's discretion (*unrestricted fund balance*).
- At the end of the current fiscal year, unrestricted fund balance for the general fund was \$913,268 or fifty-one percent of total general fund expenditures.
- The City's total debt decreased by \$180,705 during the fiscal year.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City is reporting these financial statements utilizing a new reporting structure that all state and local governments must implement. These requirements restructured much of the information that governmental units have presented in the past. For this reason, this discussion is not presented with a comparison to the prior year. In future years, a comparative analysis of government-wide data will be presented.

The City's basic financial statements are made up of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected special assessments).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government (including administration), public safety, public works and recreation and culture operations.

The government-wide financial statements can be found on pages 10 - 12 of this report.

**Fund financial statements.** A *fund* is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare this information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Major Street, Local Street and Brick Street Assessment Funds, each of which are considered to be major funds. Data from the other six governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 13 - 18 of this report.

**Proprietary funds.** The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its sanitary sewer and water operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for motor pool operations. Because this service predominately benefits governmental rather than business-type functions, it has been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the sanitary sewer and water operations, both of which are considered to be major funds of the City. The equipment pool internal service fund is presented in the proprietary fund financial statements.

The basic proprietary fund financial statements can be found on pages 19 - 22 of this report.

**Fiduciary Funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The only fund is the Tax Account. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic proprietary fund financial statements can be found on page 23 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 26 - 44 of this report.



**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees and the budgetary information for the three major governmental funds. This required supplementary information can be found on pages 45 - 49 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information. Combining, individual fund statements and schedules can be found on pages 50 - 56 of this report.

### Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$8,228,785 at the close of the fiscal year.

A significant portion of the City's net assets (48% or \$3,970,385) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The table below shows the City's net assets as of June 30, 2004.

#### City's Net Assets

	Governmental Activities	Business-type Activities	Total
Current and other assets	\$ 2,504,928	\$ 2,224,666	\$ 4,729,594
Capital assets	3,784,241	4,087,982	7,872,223
Total assets	6,289,169	6,312,648	12,601,817
Long-term liabilities outstanding	1,219,879	2,313,481	3,533,360
Other liabilities	485,544	354,128	839,672
Total liabilities	1,705,423	2,667,609	4,373,032
Net assets:			
Invested in capital assets, net of related debt	2,510,884	1,459,501	3,970,385
Restricted	431,783	-	431,783
Unrestricted	1,641,079	2,185,538	3,826,617
Total net assets	\$ 4,583,746	\$ 3,645,039	\$ 8,228,785

Of the remaining balance of net assets, approximately (5% or \$431,783) are restricted resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (47% or \$3,826,617) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The City's net assets increased by \$396,763 during the fiscal year. This growth reflects the degree to which ongoing revenues exceeded ongoing expenses. The table below shows the change in net assets for fiscal year ending June 30, 2004.

## City's Change in Net Assets

	Governmental Activities	Business-type Activities	Total
Revenue:			
Program revenue:			
Charges for services	\$ 513,700	\$ 936,192	\$ 1,449,892
Operating grants and contributions	312,370	-	312,370
General revenue:			
Property taxes	1,397,456	135,376	1,532,832
Grants and contributions not restricted to specific programs	406,556	6,296	412,852
Other	123,359	25,455	148,814
Total revenue	<u>2,753,441</u>	<u>1,103,319</u>	<u>3,856,760</u>
Expenses:			
General government	562,338	-	562,338
Public safety	714,816	-	714,816
Public works	910,178	-	910,178
Recreation and cultural	115,525	-	115,525
Interest on long-term debt	60,993	-	60,993
Water and sewer	-	1,096,147	1,096,147
Total expenses	<u>2,363,850</u>	<u>1,096,147</u>	<u>3,459,997</u>
Increase in net assets	389,591	7,172	396,763
Net assets - beginning of year	<u>4,194,155</u>	<u>3,637,867</u>	<u>7,832,022</u>
Net assets - end of year	<u>\$ 4,583,746</u>	<u>\$ 3,645,039</u>	<u>\$ 8,228,785</u>

**Governmental activities**

Governmental activities increased the City's net assets by \$389,591. The increase was largely due to planned reductions in road construction programs and surpluses in the General and Parks fund.

**Business-Type activities**

Business-type activities increased the City's net assets by \$7,172.

## Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the City's *governmental funds* is to provide information on near term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unrestricted fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,430,552, an increase of \$181,133 in comparison with the prior year. Seventy percent (\$998,769) of this amount constitutes *unrestricted fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is *restricted* to indicate that it is not available for new spending because it has already been committed to pay for specific capital projects, capital expenditures and debt service.

The General Fund is the chief operating fund of the City. At the end of the fiscal year, the unrestricted fund balance of the General Fund was \$913,268. As a measure of the General Fund's liquidity, it may be useful to compare unrestricted fund balance to total fund expenditures: unrestricted fund balance represents 51% of total General Fund expenditures.

The fund balance of the City's General Fund increased by \$34,782 during the current fiscal year. This is primarily attributable to a reduction in fringe benefit costs.

The primary funds utilized by the City for street construction and maintenance are the Major and Local Street Funds. At the conclusion of the fiscal year, the Major Street Fund had a fund balance of \$160,773 (an increase of \$16,084); the Local Street Fund had a balance of \$11,354 (a reduction of \$39,886) due to local street construction occurring in the last month of the fiscal year. The fund balance of the Brick Street Assessment Fund increased by \$62,069 due to delays in completing the road construction project.

**Proprietary funds.** The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of Water and Sewer funds at the end of the year amounted to \$2,185,538. The Water and Sewer Fund had an increase in net assets for the year of \$7,172. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City's business-type activities.

The Equipment Rental Internal Service Fund has unrestricted net assets of \$817,254 which represents an increase of \$54,824 during the current fiscal year.

## General Fund Budgetary Highlights

Differences between the original and final amended budgets for expenditures were primarily related to revised capital improvement programs.

Budget to actual comparisons for the City's general fund were mostly favorable.

**Capital Asset and Debt Administration**

**Capital assets.** The City's investment in capital assets for its governmental and business-type activities as of June 30, 2004, amounted to \$7,872,223. This investment in capital assets includes land, buildings and improvements, systems, equipment, and infrastructure. The total decrease in the City's investment in capital assets for the fiscal year was \$1,849,662. The principal reason for this decrease was the transfer of water system assets of \$1,698,242 to the Huron Regional Water Authority.

Major capital asset expenditures during the fiscal year included the following:

- The street paving of Brick Street and other streets
- The purchase of a new street sweeper and vehicles.

The table below shows the City's Capital Assets as of June 30, 2004.

**City's Capital Assets**  
(net of depreciation)

	Governmental Activities	Business-type Activities	Total
Land	\$ 436,400	\$ -	\$ 436,400
Buildings and improvements	394,101	-	394,101
Systems	-	4,087,982	4,087,982
Equipment	385,190	-	385,190
Infrastructure	2,568,550	-	2,568,550
Total net assets	<u>\$ 3,784,241</u>	<u>\$ 4,087,982</u>	<u>\$ 7,872,223</u>

Additional information on the City's capital assets can be found in Note 5 on pages 33 - 35 of this report.

**Long-term debt.** At the end of the current fiscal year, the City had total debt outstanding of \$3,991,697. These amounts are summarized below.

### City's Outstanding Debt

#### General Obligation and Revenue Bonds

	Governmental Activities	Business-type Activities	Total
Drain assessments	\$ 658,803	\$ -	\$ 658,803
Revenue/Special assessment bonds	-	2,403,481	2,403,481
General obligation bonds	-	225,000	225,000
Installment contracts	426,129	-	426,129
Land contracts	188,425	-	188,425
Accrued compensated absences	89,859	-	89,859
	<u>\$ 1,363,216</u>	<u>\$ 2,628,481</u>	<u>\$ 3,991,697</u>
Total net assets			

The City's total debt decreased by \$180,705 during the current fiscal year, with the addition of the Brick Street Installment Contract for \$246,000 and debt payments being the primary change during the current fiscal year.

Additional information on the City's long-term debt can be found in Note 7 on pages 36 - 38 of this report.

### Economic Factors and Next Year's Budgets and Rates

- Inflationary trends in the region compare favorably to national indices.
- The County's unemployment rate is 7.6 percent, which is comparable to the statewide rate.
- Water and sewer utility user charges were raised late in 2004.
- The City will make Park Improvements of approximately \$150,000.

### Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Kay Goebel, City Clerk, 300 E. Huron Avenue, Bad Axe, MI 48413.

## **Basic Financial Statements**

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**Statement of Net Assets**  
**June 30, 2004**

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and cash equivalents	\$ 2,034,489	\$ 883,531	\$ 2,918,020	\$ 151,811
Cash not qualifying as cash equivalents	-	1,085,594	1,085,594	-
Receivables - net of allowance	395,058	13,406	408,464	166
Special assessments	246,000	-	246,000	-
Internal balances	(183,669)	183,669	-	-
Due from component units	13,032	-	13,032	-
Due from fiduciary fund	18	-	18	-
Deferred charges	-	58,466	58,466	-
Prepays	-	-	-	1,131
Capital assets - net	3,784,241	4,087,982	7,872,223	304,748
<b>Total assets</b>	<b>6,289,169</b>	<b>6,312,648</b>	<b>12,601,817</b>	<b>457,856</b>
<b>Liabilities</b>				
Accounts payable	220,925	11,570	232,495	6,319
Accrued payroll and liabilities	95,972	15,959	111,931	3,449
Accrued interest	22,743	11,170	33,913	-
Due to primary government	-	-	-	13,032
Deferred revenue	2,567	429	2,996	166
Noncurrent liabilities:				
Due within one year	143,337	315,000	458,337	-
Due in more than one year	1,219,879	2,313,481	3,533,360	-
<b>Total liabilities</b>	<b>1,705,423</b>	<b>2,667,609</b>	<b>4,373,032</b>	<b>22,966</b>
<b>Net Assets</b>				
Investment in capital assets - net	2,510,884	1,459,501	3,970,385	304,748
Restricted:				
Capital projects	62,631	-	62,631	20,045
Debt service	14,690	-	14,690	-
Other purposes	354,462	-	354,462	-
Unrestricted	1,641,079	2,185,538	3,826,617	110,097
<b>Total net assets</b>	<b>\$ 4,583,746</b>	<b>\$ 3,645,039</b>	<b>\$ 8,228,785</b>	<b>\$ 434,890</b>

The notes to financial statements are an integral part of this statement.

# City of Bad Axe, Michigan

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
<b>Primary Government</b>			
Governmental activities:			
General government	562,338	23,242	-
Public safety	714,816	13,638	40,000
Public works	910,178	425,228	272,370
Recreation and culture	115,525	51,592	-
Other	-	-	-
Interest on long-term debt	60,993	-	-
Total governmental activities	2,363,850	513,700	312,370
Business type activities:			
Water and sewer	934,676	936,192	-
Interest on long-term debt	161,471	-	-
Total business activities	1,096,147	936,192	-
Total primary government	3,459,997	1,449,892	312,370
<b>Component Units</b>			
Economic Development Corporation	-	-	-
Downtown Development Authority	117,764	-	-
Library	214,647	66,117	-
Total component units	332,411	66,117	-
General revenue:			
Property taxes			
State sources			
Unrestricted investment income			
Gain (loss) on sale of equipment			
Miscellaneous revenue			
Total general revenue and transfers			
<b>Change in net assets</b>			
<b>Transfer of capital assets to Water Authority</b>			
<b>Net assets - Beginning of year</b>			
<b>Net assets - End of year</b>			

The notes to financial statements are an integral part of this statement.



**Statement of Activities**  
**Year Ended June 30, 2004**

Net (Expense) Revenue and Change in Net Assets

Primary Government		Total	Component Units
Governmental Activities	Business-type Activities		
(539,096)	-	(539,096)	-
(661,178)	-	(661,178)	-
(212,580)	-	(212,580)	-
(63,933)	-	(63,933)	-
-	-	-	-
(60,993)	-	(60,993)	-
<u>(1,537,780)</u>	<u>-</u>	<u>(1,537,780)</u>	<u>-</u>
-	1,516	1,516	-
-	(161,471)	(161,471)	-
-	(159,955)	(159,955)	-
<u>(1,537,780)</u>	<u>(159,955)</u>	<u>(1,697,735)</u>	<u>-</u>
-	-	-	-
-	-	-	(117,764)
-	-	-	(148,530)
-	-	-	(266,294)
1,397,456	135,376	1,532,832	153,274
406,556	6,296	412,852	12,858
19,418	25,455	44,873	778
3,027	-	3,027	-
100,914	-	100,914	35,156
<u>1,927,371</u>	<u>167,127</u>	<u>2,094,498</u>	<u>202,066</u>
389,591	7,172	396,763	(64,228)
-	(1,698,242)	(1,698,242)	-
<u>4,194,155</u>	<u>5,336,109</u>	<u>9,530,264</u>	<u>499,118</u>
<u>\$ 4,583,746</u>	<u>\$ 3,645,039</u>	<u>\$ 8,228,785</u>	<u>\$ 434,890</u>

The notes to financial statements are an integral part of this statement.

# City of Bad Axe, Michigan

	Major Funds			
	General	Major Street	Local Street	Brick Street Assessment
<b>Assets</b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 941,599	\$ 170,768	\$ 93,693	\$ 143,091
Receivables:				
Taxes	1,219	-	1,056	-
Interest and accounts	105,370	4,863	-	-
Other governmental units	242,479	28,327	10,890	-
Special assessments	-	-	-	246,000
Due from other funds	34,066	-	6,862	-
Due from component units	13,032	-	-	-
Total assets	<u>\$ 1,337,765</u>	<u>\$ 203,958</u>	<u>\$ 112,501</u>	<u>\$ 389,091</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 62,621	\$ 898	\$ 64,010	\$ 81,022
Accrued payroll and liabilities	77,493	11,920	1,592	-
Due to other funds	283,164	30,367	34,489	-
Deferred revenue	1,219	-	1,056	246,000
Total liabilities	424,497	43,185	101,147	327,022
<b>Fund Balances</b>				
Restricted:				
Capital projects	-	-	-	62,069
Debt service	-	-	-	-
Other purposes	-	160,773	11,354	-
Unrestricted	913,268	-	-	-
Total fund balances	<u>913,268</u>	<u>160,773</u>	<u>11,354</u>	<u>62,069</u>
Total liabilities and fund balances	<u>\$ 1,337,765</u>	<u>\$ 203,958</u>	<u>\$ 112,501</u>	<u>\$ 389,091</u>

The notes to financial statements are an integral part of this statement.

**Governmental Funds  
Balance Sheet  
June 30, 2004**

Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 213,240	\$ 1,562,391
292	2,567
562	110,795
-	281,696
-	246,000
76,384	117,312
-	13,032
<u>\$ 290,478</u>	<u>\$ 2,333,793</u>
\$ 2,185	\$ 210,736
4,663	95,668
250	348,270
292	248,567
<u>7,390</u>	<u>903,241</u>
562	62,631
14,690	14,690
182,335	354,462
85,501	998,769
<u>283,088</u>	<u>1,430,552</u>
<u>\$ 290,478</u>	<u>\$ 2,333,793</u>

The notes to financial statements are an integral part of this statement.

**Governmental Funds**  
**Reconciliation of the Balance Sheet - Governmental Funds**  
**to the Statement of Net Assets**  
**June 30, 2004**

Total fund balances of governmental funds		\$ 1,430,552
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Capital assets	5,571,740	
Accumulated depreciation	<u>(2,095,841)</u>	3,475,899
Long-term receivables such as special assessments are expected to be collected over several years in the governmental funds and are not available to pay for current year expenditures		
		246,000
Internal Service Fund used by management to charge cost of equipment used. The assets and liabilities of the internal service fund are included in the governmental activities statement of net assets.		
		817,254
Long-term liabilities are not due and payable in the current period and are not reported in the funds.		
Drain assessments	(658,803)	
Notes payable	(614,554)	
Accrued interest payable	(22,743)	
Accrued compensated absence	<u>(89,859)</u>	<u>(1,385,959)</u>
Net assets of governmental activities		<u><u>\$ 4,583,746</u></u>

**City of Bad Axe, Michigan**

	Major Funds			
	General	Major Street	Local Street	Brick Street Assessment
<b>Revenue</b>				
Property taxes	\$1,075,388	\$ -	\$ 41,938	\$ -
Licenses and permits	15,382	-	-	-
Federal sources	40,000	-	-	-
State sources	396,662	194,732	77,638	-
Local sources	126,010	-	-	-
Fines and forfeitures	9,845	-	-	-
Interest income	9,545	1,736	586	237
Rental income	3,000	-	-	-
Miscellaneous	128,673	-	-	-
Total revenue	1,804,505	196,468	120,162	237
<b>Expenditures</b>				
General government	584,130	-	-	-
Public safety	612,283	-	-	-
Public works	350,269	139,996	200,436	-
Recreation and culture	6,820	-	-	-
Other	216,221	-	-	-
Capital outlay	-	-	-	184,168
Debt service:				
Principal	-	-	-	-
Interest and charges	-	-	-	-
Total expenditures	1,769,723	139,996	200,436	184,168
Excess of revenue over (under) expenditures	34,782	56,472	(80,274)	(183,931)
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	-	40,388	-
Transfers out	-	(40,388)	-	-
Proceeds from long-term debt	-	-	-	246,000
Total other financing sources (uses)	-	(40,388)	40,388	246,000
Excess of revenue and other financing sources over (under) expenditures and other financing uses	34,782	16,084	(39,886)	62,069
<b>Fund Balances - Beginning of year</b>	786,527	124,420	34,665	-
<b>Prior Period Adjustment</b>	91,959	20,269	16,575	-
<b>Fund Balances - End of year</b>	<u>\$ 913,268</u>	<u>\$ 160,773</u>	<u>\$ 11,354</u>	<u>\$ 62,069</u>

The notes to financial statements are an integral part of this statement.

**Governmental Funds**  
**Statement of Revenue, Expenditures, and Changes in Fund Balances**  
**Year Ended June 30, 2004**

Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 280,130	\$ 1,397,456
-	15,382
-	40,000
9,894	678,926
55,385	181,395
-	9,845
1,801	13,905
-	3,000
2,021	130,694
349,231	2,470,603
-	584,130
1,755	614,038
2,021	692,722
104,573	111,393
-	216,221
-	184,168
83,633	83,633
49,165	49,165
241,147	2,535,470
108,084	(64,867)
-	40,388
-	(40,388)
-	246,000
-	246,000
108,084	181,133
175,004	1,120,616
-	128,803
<u>\$ 283,088</u>	<u>\$ 1,430,552</u>

The notes to financial statements are an integral part of this statement.

**Governmental Funds**  
**Reconciliation of the Statement of Revenue, Expenditures,**  
**and Changes in Fund Balances - Governmental Funds**  
**to the Statement of Activities**  
**Year Ended June 30, 2004**

Net change in fund balances - total governmental funds \$ 181,133

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	259,018	
Depreciation expense	<u>(227,768)</u>	31,250

Internal service fund used by management to charge costs of equipment used. The net revenues (expenses) attributable to this fund is reported with governmental activities. 54,824

The issuance of long-term debt (e.g. bonds and notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources to governmental funds. Neither transaction, however, has any effect on net assets.

Principal payments on long term liabilities	117,279
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Increase in accrued interest payable	(701)	
Decrease in accrued compensated absences	<u>5,806</u>	<u>5,105</u>

Change in net assets of governmental activities	<u><u>\$ 389,591</u></u>
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**Proprietary Funds**  
**Statement of Net Assets**  
**June 30, 2004**

	<u>Enterprise Fund</u>	<u>Governmental Activities</u>
	<u>Water and Sewer</u>	<u>Internal Service Fund</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 802,551	\$ 472,098
Cash not qualifying as cash equivalents	1,085,594	-
Receivables:		
Property taxes	429	-
Short-term contracts	3,426	-
Due from other funds	<u>196,307</u>	<u>47,307</u>
Total current assets	2,088,307	519,405
Noncurrent assets:		
Restricted cash and cash equivalents	80,980	-
Long-term contracts	9,551	-
Deferred charges	58,466	-
Capital assets - net	<u>4,087,982</u>	<u>308,342</u>
Total noncurrent assets	<u>4,236,979</u>	<u>308,342</u>
Total assets	6,325,286	827,747
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	11,570	10,189
Accrued payroll and liabilities	15,959	304
Accrued interest	11,170	-
Due to other funds	12,638	-
Deferred revenue	429	-
General obligation bonds	<u>315,000</u>	<u>-</u>
Total current liabilities	366,766	10,493
Long-term debt - net of current portion	<u>2,313,481</u>	<u>-</u>
Total liabilities	2,680,247	10,493
<b>Net Assets</b>		
Investment in capital assets - net	1,459,501	-
Unrestricted	<u>2,185,538</u>	<u>817,254</u>
Total net assets	<u>\$ 3,645,039</u>	<u>\$ 817,254</u>

The notes to financial statements are an integral part of this statement.



**Proprietary Funds**  
**Statement of Revenue, Expenses, and Changes in Net Assets**  
**Year Ended June 30, 2004**

	<u>Enterprise Fund</u>	<u>Governmental Activities</u>
	<u>Water and Sewer</u>	<u>Internal Service Fund</u>
<b>Operating Revenue</b>		
Sale of water	\$ 345,719	\$ -
Sewage disposal charges	535,818	-
Equipment rentals	-	245,292
Permits and tap fees	30,370	-
Other	24,285	9,173
	<u>936,192</u>	<u>254,465</u>
<b>Total operating revenue</b>	936,192	254,465
<b>Operating Expenses</b>		
Cost of water purchased	150,649	-
Cost of sewage treatment	369,556	-
Operations and maintenance	-	86,425
Depreciation	266,742	96,244
General and administrative	147,729	25,512
	<u>934,676</u>	<u>208,181</u>
<b>Total operating expenses</b>	934,676	208,181
<b>Operating Income</b>	1,516	46,284
<b>Nonoperating Revenue (Expenses)</b>		
Property taxes	135,376	-
State sources	6,296	-
Investment income	25,455	5,513
Interest expense	(161,471)	-
Gain on sale of equipment	-	3,027
	<u>5,656</u>	<u>8,540</u>
<b>Total nonoperating revenue (expenses)</b>	5,656	8,540
<b>Change in Net Assets</b>	7,172	54,824
<b>Transfer of capital assets to Water Authority</b>	(1,698,242)	-
<b>Net Assets - Beginning of year</b>	<u>5,336,109</u>	<u>762,430</u>
<b>Net Assets - End of year</b>	<u>\$ 3,645,039</u>	<u>\$ 817,254</u>

The notes to financial statements are an integral part of this statement.

**Proprietary Funds  
Statement of Cash Flows  
Year Ended June 30, 2004**

	<u>Enterprise Fund</u>	<u>Governmental Activities</u>
	<u>Water and Sewer</u>	<u>Internal Service Fund</u>
<b>Cash flows from operating activities:</b>		
Receipts from customers	\$ 939,325	\$ 221,248
Payments to employees	(238,197)	(14,102)
Payments to suppliers	(422,358)	(93,990)
	<u>278,770</u>	<u>113,156</u>
<b>Cash flows from noncapital financing activities:</b>		
Property taxes	135,376	-
Interfund activity	(176,667)	-
State sources	6,296	-
	<u>(34,995)</u>	<u>-</u>
<b>Cash flows from capital and related financing activities:</b>		
Sale of equipment	-	4,050
Acquisition and construction of capital assets	(13,318)	(168,019)
Principal paid on bond debt and leases	(320,000)	-
Interest paid on bond debt and leases	(146,475)	-
	<u>(479,793)</u>	<u>(163,969)</u>
<b>Cash flows from investing activities:</b>		
Investment income	25,455	5,513
Purchases of investments	(1,581,401)	-
Maturity of investments	1,483,307	-
	<u>(72,639)</u>	<u>5,513</u>
Net decrease in cash and cash equivalents for the year	(308,657)	(45,300)
<b>Cash and cash equivalents - Beginning of year</b>	<u>1,192,188</u>	<u>517,398</u>
<b>Cash and cash equivalents - End of year</b>	<u>\$ 883,531</u>	<u>\$ 472,098</u>

The notes to financial statements are an integral part of this statement.

**Proprietary Funds**  
**Statement of Cash Flows (Continued)**  
**Year Ended June 30, 2004**

	<u>Enterprise Fund</u>	<u>Governmental Activities</u>
	<u>Water and Sewer</u>	<u>Internal Service Fund</u>
<b>Reconciliation of net income to net cash provided by operating activities:</b>		
Operating income for the year	\$ 1,516	\$ 46,284
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	266,742	96,244
Amortization of bond costs	5,705	-
Change in assets and liabilities:		
Receivables	3,133	(33,217)
Accounts payable	(2,129)	7,982
Accrued and other liabilities	(2,121)	(4,137)
Due to other funds	5,924	-
Net cash provided by operating activities	<u>\$ 278,770</u>	<u>\$ 113,156</u>

**Fiduciary Funds  
Statement of Net Assets  
June 30, 2004**

	Tax Account
<b>Assets</b>	
Cash and cash equivalents	<u>\$        3,505</u>
<b>Liabilities</b>	
Accounts payable	\$        2,987
Due to other funds	18
Due to other governmental units	<u>500</u>
Total liabilities	<u>\$        3,505</u>

The notes to financial statements are an integral part of this statement.

**City of Bad Axe, Michigan**

**Component Units**  
**Statement of Net Assets**  
**June 30, 2004**

	Economic Development Corporation	Downtown Development Authority	Library	Totals
<b>Assets</b>				
Cash and cash equivalents	\$ 4,128	\$ 62,308	\$ 85,375	\$ 151,811
Receivables - net of allowance	-	-	166	166
Prepays	-	-	1,131	1,131
Capital assets - net	-	-	304,748	304,748
Total assets	4,128	62,308	391,420	457,856
<b>Liabilities</b>				
Accounts payable	-	5,219	1,100	6,319
Accrued payroll and liabilities	-	-	3,449	3,449
Due to primary government	-	-	13,032	13,032
Deferred revenue	-	-	166	166
Total liabilities	-	5,219	17,747	22,966
<b>Net Assets</b>				
Invested in capital assets - net	-	-	304,748	304,748
Restricted:				
Capital expenditures	-	-	20,045	20,045
Unrestricted	4,128	57,089	48,880	110,097
Total net assets	\$ 4,128	\$ 57,089	\$ 373,673	\$ 434,890

The notes to financial statements are an integral part of this statement.

**Component Units  
Statement of Activities  
Year Ended June 30, 2004**

		Net Expenses and Change in Net Assets			
	Expenses	Economic Development Corporation	Downtown Development Authority	Library	Total
Governmental activities:					
Public works	\$ 117,764	\$ -	\$ (117,764)	\$ -	\$ (117,764)
Recreation and cultural	214,647	-	-	(214,647)	(214,647)
Total	<u>\$ 332,411</u>	-	(117,764)	(214,647)	(332,411)
Program revenue		-	-	66,117	66,117
Net governmental activities		-	(117,764)	(148,530)	(266,294)
General revenue:					
Property taxes		-	77,024	76,250	153,274
State sources		-	-	12,858	12,858
Unrestricted investment income		-	-	778	778
Miscellaneous revenue		-	324	34,832	35,156
Total general revenue		-	77,348	124,718	202,066
<b>Change in Net Assets</b>		-	(40,416)	(23,812)	(64,228)
<b>Net Assets - Beginning of year</b>		<u>4,128</u>	<u>97,505</u>	<u>397,485</u>	<u>499,118</u>
<b>Net Assets - End of year</b>		<u>\$ 4,128</u>	<u>\$ 57,089</u>	<u>\$ 373,673</u>	<u>\$ 434,890</u>

The notes to financial statements are an integral part of this statement.

## **Notes To Financial Statements**

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**Note 1 – Summary of Significant Accounting Policies**

The accounting policies of the City of Bad Axe, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Bad Axe, Michigan:

**Reporting Entity**

The City of Bad Axe, Michigan is governed by an elected mayor and six-member council. The City is located in Huron County, Michigan, and has approximately 3,500 residents. Services provided to City residents include law enforcement, community enrichment and development, and human services. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. As defined by GASB Statement 14, component units are legally separate entities that are included in the City's reporting entity because of the significance of their operating or financial relationships with the City. The discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City.

**Discretely Presented Component Units** - The discretely presented component units' column in the combined financial statements include the financial data of the City's component units. The governing bodies of these component units are appointed by the City Council.

- a. The City of Bad Axe Downtown Development Authority (DDA) is a legally separate entity which promotes the economic growth of the business district of which it is composed.
- b. The City of Bad Axe Economic Development Corporation (EDC) is a legally separate entity which provides economic development assistance to businesses in the City.
- c. The Bad Axe Public Library provides library services to City residents. The City allocates tax millages to the Library, approves the Library's budgets and appoints the Library Board.

**Administrative Offices**

City of Bad Axe Downtown Development Authority  
300 East Huron Avenue  
Bad Axe, MI 48413

City of Bad Axe Economic Development Corporation  
300 East Huron Avenue  
Bad Axe, MI 48413

Bad Axe Public Library  
200 South Hanselman Street  
Bad Axe, MI 48413

The City participates in a cooperative unit with the Bad Axe Fire Protection Association and the Central Huron Ambulance Service Association. See Note 11 entitled "Joint Ventures" for specific disclosures. Joint ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit, but are discussed in these notes because of the nature of their relationship with the City.

**Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. The effect of interfund activity has been removed from these statements.



**Note 1 – Summary of Significant Accounting Policies (Continued)****Government-wide and Fund Financial Statements (Continued)**

Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the discretely presented component units for which the City is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function (governmental activities) or identifiable activity (business-type activities) are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

- The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Major Road Fund accounts for the construction, maintenance, and repairs of all streets classified as "major roads" within the City. Financing is provided primarily by State-shared gas and weight taxes and local contributions. The fund is operated under the provisions of Michigan's Act 51 of 1951, as amended.
- The Local Road Fund accounts for the construction, maintenance, and repairs of all streets classified as "local roads" within the City. Financing is provided primarily by State-shared gas and weight taxes and local contributions. The fund is operated under the provisions of Michigan's Act 51 of the Public Acts of 1951.
- The Brick Street Assessment Fund is used to account for the construction activity for local improvements that benefit property owners.

The City reports the following major enterprise fund:

- The Water and Sewer Fund accounts for the activity of the water distribution and sewage collection systems administered by the City.

Additionally, the City reports the following fund types:

- The Internal Service Fund is used to account for the charges for equipment rental from funds and departments.
- The Agency Funds account for assets held by the City in a trustee capacity or as an agent for individuals, organizations, or other governments.

**Note 1 – Summary of Significant Accounting Policies (Continued)****Measurement Focus and Basis of Accounting**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period in which they become susceptible to accrual – that is, when they become both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenues susceptible to accrual include property taxes, intergovernmental revenue, special assessments collected in the current fiscal period, and interest. All other revenue items are considered available only when cash is received. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Private sector standards of accounting issued before December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to apply private sector standards issued after November 30, 1989 for its Enterprise Funds.

**Assets, Liabilities and Net Assets or Equity**

**Cash and Investments** – Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Receivables and Payables** – In general, outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

**Property Taxes** – Property taxes are assessed as of December 31. The related property taxes are billed on December 31 of the following year and become a lien at that time. These taxes are payable at the City until February 15 without penalty. The final collection date by the City Treasurer is February 28 before they are added to the County tax rolls.

**Inventories** – Inventories of governmental funds are recorded as expenditures when purchased.

**Restricted Assets** – Restricted assets include amounts on deposit with Huron County being held for the construction, maintenance, and related debt service of storm drains within the City.

**Note 1 – Summary of Significant Accounting Policies (Continued)****Assets, Liabilities and Net Assets or Equity (Continued)**

**Capital Assets** – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The City has adopted the policy of capitalizing net interest costs on funds borrowed to finance the construction of proprietary fund fixed assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Drains	20 years
Roads and sidewalks	20 years
Land improvements	15 – 40 years
Buildings and building improvements	30 years
Vehicles	5 years
Machinery and equipment	7 – 20 years
Office equipment and furniture	5 – 10 years
Water and sewer distribution systems	20 – 40 years

**Compensated Absences** – It is the City's policy to permit employees to accumulate earned but unused sick pay benefits, up to a maximum of 960 hours. Any hours in excess of the maximum is paid to the employees at a 50% rate, up to 40 hours. Upon termination of employment, City employees receive up to 50% of their sick pay accumulations depending upon years of service. Unused employee vacation time is paid to employees annually on their anniversary date or contract date. The government-wide and proprietary statements accrue all vacation and personal pay as it is earned and sick pay as it is used or vested (whichever is earlier). A liability for these amounts is reported in governmental funds as it comes due for payment generally when the time is taken off, or employees terminate.

**Long-term Obligations** – In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bond discounts are presented as a reduction of the face amount of bonds payable. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Fund Equity** – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose

**Use of Estimates** – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Note 2 – Stewardship, Compliance, and Accountability**

The City Charter establishes the fiscal year as the twelve-month period beginning July 1. In April, the departments submit to the City Manager a budget of estimated expenditures for the ensuing fiscal year. The City Manager submits a budget of estimated expenditures and revenues by the second regular City Council meeting in May. The City Council, subsequently, holds a budget hearing on the proposed budget at the first meeting in June.

The City Council legally enacts the budget at its second meeting in June through the passage of a budget resolution. The City Manager is authorized to make budgetary transfers within the appropriation centers and funds. All fund budgets are adopted at the departmental level for appropriation centers. Appropriations lapse at the end of each fiscal year.

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the City's actual expenditures and budget expenditures for budgetary funds have been shown on a functional basis. The budget approved by the Council for the City's General, Special Revenue and Proprietary Funds were adopted at the departmental level. Budgets approved for the City's Debt Service and Component Unit Funds are adopted at the total expenditure level. The budgets were amended during the last quarter of the year to reflect certain changes in expenditure levels.

**Excess of Expenditures Over Appropriations in Budgeted Funds**

During the year, the City incurred expenditures at the budgetary center level over budget as follows:

<u>Fund</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Major funds:			
General Fund:			
General government	\$ 576,158	\$ 584,130	\$ (7,972)
Public safety	605,028	612,283	(7,255)
Recreation & culture	6,700	6,820	(120)
Major Street:			
Transfers out	36,000	40,388	(4,388)
Local Street:			
Public works	158,436	200,436	(41,990)

These variances were caused by unanticipated expenditures that became necessary during the year.

**Note 3 – Receivables**

Receivables as of June 30, 2004 were as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Component Units</u>
Taxes	\$ 2,567	\$ -	\$ 166
Accounts, net of allowance for uncollectibles of \$3,000	110,795	13,406	-
Due from other governments	<u>281,696</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 395,058</u>	<u>\$ 13,406</u>	<u>\$ 166</u>

**Note 4 - Deposits and Investments**

Michigan Compiled Laws, Section 129.91 authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The City's deposits and investments are in accordance with statutory authority.

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>
Cash and cash equivalents	\$ 2,034,489	\$ 883,531	\$ 2,918,020	\$ 3,505	\$ 151,811
Cash not qualifying as cash equivalents	-	1,085,594	1,085,594	-	-
Total	<u>\$ 2,034,489</u>	<u>\$ 1,969,125</u>	<u>\$ 4,003,614</u>	<u>\$ 3,505</u>	<u>\$ 151,811</u>

The above amounts are classified by GASB Statement No. 3 in the following categories.

	<u>Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>
Bank deposits (checking accounts, savings accounts and certificates of deposit)	\$ 3,969,475	\$ 3,205	\$ 151,611
Investments in securities, mutual funds, and similar vehicles	18,387	-	-
Petty cash or cash on hand	375	300	200
Deposits held by Huron County	15,377	-	-
Total	<u>\$ 4,003,614</u>	<u>\$ 3,505</u>	<u>\$ 151,811</u>

The deposits held by Huron County are reported within the Water and Sewer Fund and represent the City's share of cash in the County's Water and Sewer Trust Fund. The deposits are not held in the name of the City.

**Deposits**

The above deposits were reflected in the accounts of the bank (without recognition of checks written, but not yet cleared or of deposits in transit) at the following amounts:

Primary government	\$ 4,223,137
Fiduciary funds	9,875
Component units	137,847

**Note 4 – Deposits and Investments (Continued)**

Of all deposits held in the name of the City of Bad Axe, Michigan, approximately \$1,631,000 is covered by federal depository insurance and the remainder is uninsured and uncollateralized.

The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Investments**

The GASB Statement No. 3 risk disclosures for the City's investments are as follows:

**Non-risk categorized investments**

	<u>Carrying Value</u>	<u>Market Value</u>
Prime Vest Money Market Funds	\$ 18,387	\$ 18,387
NBD Government Operating Money Market Fund	<u>15,377</u>	<u>15,377</u>
Total investments	<u>\$ 33,764</u>	<u>\$ 33,764</u>

**Note 5 – Capital Assets**

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance June 30, 2003	Additions	Disposals & Adjustments	Balance June 30, 2004
Governmental activities:				
Primary government:				
Capital assets not being depreciated:				
Land	\$ 436,400	\$ -	\$ -	\$ 436,400
Capital assets being depreciated:				
Drains	1,523,525	-	-	1,523,525
Roads	1,570,365	143,090	-	1,713,455
Streetscape improvements	936,067	89,982	-	1,026,049
Buildings and improvements	580,188	-	-	580,188
Land improvements	113,000	-	-	113,000
Machinery and equipment	799,391	139,346	21,881	916,856
Vehicles	362,180	54,619	18,608	398,191
Subtotal	5,884,716	427,037	40,489	6,271,264
Accumulated depreciation:				
Drains	653,569	76,176	-	729,745
Roads	494,200	66,003	-	560,203
Streetscape improvements	357,728	46,803	-	404,531
Buildings and improvements	209,665	17,754	-	227,419
Land improvements	68,126	3,542	-	71,668
Machinery and equipment	553,928	85,754	20,858	618,824
Vehicles	301,662	27,979	18,608	311,033
Subtotal	2,638,878	324,011	39,466	2,923,423
Net capital assets being depreciated	3,245,838	103,026	1,023	3,347,841
Net capital assets	3,682,238	103,026	1,023	3,784,241

## Note 5 – Capital Assets (Continued)

	Balance June 30, 2003	Additions	Disposals & Adjustments	Balance June 30, 2004
Business-type activities:				
Capital assets being depreciated:				
Water system plant	\$ 3,474,002	\$ 13,318	\$ 1,832,694	\$ 1,654,626
Sewer system plant	6,310,719	-	-	6,310,719
Subtotal	9,784,721	13,318	1,832,694	7,965,345
Accumulated depreciation:				
Water system plant	768,247	87,762	134,452	721,557
Sewer system plant	2,976,827	178,979	-	3,155,806
Subtotal	3,745,074	266,741	134,452	3,877,363
Net capital assets being depreciated	6,039,647	(253,423)	1,698,242	4,087,982
Total primary government	<u>\$ 9,721,885</u>	<u>(150,397)</u>	<u>\$ 1,699,265</u>	<u>\$ 7,872,223</u>
Component units:				
Capital assets not being depreciated:				
Land	\$ 7,000	-	\$ -	\$ 7,000
Capital assets being depreciated:				
Buildings and improvements	457,918	-	-	457,918
Machinery and equipment	61,972	-	-	61,972
Books and media	144,698	22,650	32,057	135,291
Subtotal	664,588	22,650	32,057	655,181
Accumulated depreciation:				
Buildings and improvements	219,384	19,189	-	238,573
Machinery and equipment	41,736	7,886	-	49,622
Books and media	73,296	27,999	32,057	69,238
Subtotal	334,416	55,074	32,057	357,433
Net capital assets being depreciated	330,172	(32,424)	-	297,748
Net capital assets	<u>\$ 337,172</u>	<u>\$ (32,424)</u>	<u>\$ -</u>	<u>\$ 304,748</u>



**Note 5 – Capital Assets (Continued)**

Depreciation expense was charged to programs of the primary government as follows:

## Governmental activities:

General government	\$ 38,785
Public safety	23,220
Public works	262,006
Total governmental activities	<u>\$ 324,011</u>

## Business-type activities:

Water system	\$ 87,762
Sewer system	178,979
Total business-type activities	<u>\$ 266,741</u>

## Component units:

Recreation and culture	<u>\$ 55,074</u>
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**Note 6 – Interfund Receivables, Payables, and Transfers**

The interfund balances are comprised of the following:

	Interfund Receivables	Interfund Payables
General fund:		
Operations	\$ 47,098	\$ 283,164
Special revenue funds:		
Major Street	-	30,367
Local Street	6,862	34,489
Parks	<u>76,384</u>	<u>250</u>
	83,246	65,106
Enterprise funds:		
Water/Sewer	196,307	12,638
Internal service funds:		
Motor Vehicle Equipment	47,307	-
Agency funds:		
Tax	-	18
Component units:		
Library	<u>-</u>	<u>13,032</u>
Total	<u>\$ 373,958</u>	<u>\$ 373,958</u>

Interfund transfers are comprised of the following:

	Transfer In	Transfer Out
Special revenue funds:		
Local Street	\$ 40,388 (1)	\$ -
Major Street	<u>-</u>	<u>40,388</u> (1)
	<u>\$ 40,388</u>	<u>\$ 40,388</u>

(1) Allowable transfer under Act 51

**Note 7 – Long-term Debt**

A summary of changes in long-term debt is as follows:

	Balance June 30, 2003	Additions (Retirements)	Balance June 30, 2004	Due Within One Year
<b><u>Governmental activities:</u></b>				
<b><u>General Obligation Debt:</u></b>				
Other Long-term Obligations:				
Drain assessments payable - Bad Axe Drain - Phase I, due in annual installments of \$24,066 plus interest annually at 7.000% through March 1, 2007 (a)	\$ 96,262	\$ (24,066)	\$ 72,196	\$ 24,066
Drain assessments payable - Bad Axe Drain - Phase II, due in annual installments of \$52,500 plus interest annually at 6.720% through March 1, 2014 (a)	577,500	(52,500)	525,000	52,500
Drain assessments payable - Crumback Drain, due in annual installments of \$6,826 plus interest annually at 4.550% to 5.000% through March 1, 2013 (a)	68,264	(6,826)	61,438	6,827
Drain assessments payable - Bissett and Branches Drain, due in annual installments of \$169, 0% interest through March 1, 2005 (a)	-	338 (169)	169	169
\$140,000 land contract for the purchase of land due in annual installments of \$13,216 including interest at a rate of 7.000% through January 15, 2008; a final payment of \$89,286 is due on January 15, 2009	113,683	(5,258)	108,425	5,626
\$100,000 land contract for the purchase of land, due in annual installments of \$10,000 plus interest annually at 3.750% through July 1, 2011	90,000	(10,000)	80,000	10,000
\$142,000 installment purchase contract for DDA Streetscape capital project, due in annual installments of \$17,507 including interest at 4.000% through October 1, 2011(b)	130,173	(12,301)	117,872	12,792
\$75,000 installment purchase contract for DDA Streetscape capital project, due in annual installments of \$9,247 including interest at 4.000% through October 1, 2011(b)	68,753	(6,496)	62,257	6,757

## Note 7 – Long-term Debt (Continued)

	Balance June 30, 2003	Additions (Retirements)	Balance June 30, 2004	Due Within One Year
<b><u>Governmental activities (Continued):</u></b>				
<b>General Obligation Debt (Continued):</b>				
Other Long-term Obligations (Continued):				
Brick Street Assessment installment contract, due in annual installments of \$24,600 plus interest annually at 1.850% to 3.950% through June 10, 2014	-	246,000	246,000	24,600
Total other debt	1,144,635	128,722	1,273,357	143,337
<b>Accumulated Fringe Benefits:</b>				
Vested sick leave	95,665	(5,806)	89,859	-
Total governmental activities	1,240,300	122,916	1,363,216	143,337
<b><u>Business-type activities:</u></b>				
<b>General Obligation Bonds:</b>				
\$1,700,000 1992 sewer refunding bonds due in annual installments of \$110,000 to \$115,000 plus interest semi-annually at 5.700% to 5.750% through June 1, 2006	345,000	(120,000)	225,000	115,000
<b>County Contractual Obligations:</b>				
\$1,605,000 1996 water supply and sewage disposal bonds - Series B due in annual installments of \$150,000 to \$200,000 plus interest semi-annually at 4.450% to 4.750% through December 1, 2007	850,000	(150,000)	700,000	150,000
Less unamortized discount	(45,580)	15,438	(30,142)	-
Net debt	804,420	(134,562)	669,858	150,000
\$1,900,000 1996 water supply and sewage disposal bonds - Series A due in annual installments of \$50,000 to \$200,000 plus interest semi-annually at 4.125% to 7.125% through December 1, 2015	1,800,000	(50,000)	1,750,000	50,000
Less unamortized discount	(17,318)	941	(16,377)	-
Net debt	1,782,682	(49,059)	1,733,623	50,000
Total business-type activities	2,932,102	(303,621)	2,628,481	315,000
Total primary government	\$ 4,172,402	\$ (180,705)	\$ 3,991,697	\$ 458,337

**Note 7 – Long-term Debt (Continued)**

- (a) The Michigan drain code requires each entity so assessed to pay each assessment installment and interest thereon from its general or contingent fund or to levy ad valorem taxes on all taxable property in the entity for such purposes, subject to applicable charter, statutory and constitutional tax limitations.
- (b) The borrowed funds will be repaid by the DDA with captured taxes on special assessments to the downtown development district. Accordingly, debt service payments are reported in the DDA component unit fund.

Annual debt service requirements to maturity for the above bond obligations, excluding the unamortized discounts are as follows:

	Governmental Activities		
	Principal	Interest	Total
2005	\$143,337	\$70,173	\$213,510
2006	144,342	61,205	205,547
2007	145,578	53,548	199,126
2008	122,808	45,709	168,517
2009	200,241	39,402	239,643
2010-2014	517,051	78,549	595,600
	<u>\$1,273,357</u>	<u>\$348,586</u>	<u>\$1,621,943</u>

	Business-type Activities		
	Principal	Interest	Total
2005	\$ 315,000	\$ 129,555	\$ 444,555
2006	335,000	112,163	447,163
2007	225,000	94,290	319,290
2008	250,000	81,931	331,931
2009	175,000	71,156	246,156
2010-2014	975,000	215,582	1,190,582
Thereafter	400,000	17,375	417,375
	<u>\$ 2,675,000</u>	<u>\$ 722,052</u>	<u>\$ 3,397,052</u>

**Note 8 – Property Taxes**

The 2003 ad valorem tax levy was based on the following property valuations and millage rates:

Total taxable valuation:	<u>\$ 71,856,383</u>
Millage rates per \$1,000 of taxable valuation:	<u>Mills</u>
General Fund	13.51
Parks Fund	1.00
Library Fund	1.00
Local Street Fund	.55
1992 Refunding Bond Fund (1983 sewer debt)	1.75
Drain Debt Service Fund	<u>1.75</u>
	<u>19.56</u>

**Note 9 – Retirement Plans**Defined Benefit Pension Plan**A. Plan description**

The City contributes to defined benefit pension plans with the Michigan Municipal Employees Retirement System (MERS). All full-time administration, DPW and police employees are eligible to join the plan. The plan became effective August 1, 1999.

The Municipal Employees Retirement System of Michigan (MERS), is an agent multiple-employer, state-wide, public employee pension plan that was created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. Pursuant to Act 220, on August 15, 1996, MERS became an independent public non-profit corporation, which is an instrumentality of the participating municipalities and courts. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. It provides centralized administration and investment of plan assets, but each employer unit is separately experienced rated MERS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to MERS, 1134 Municipal Way, Lansing, Michigan 48917 or by calling 1-800-767-6377.

**B. Funding Policy**

Employees are required to contribute 5% of their annual earnings to the System. The City is required to contribute based on an actuarially determined rate.

**C. Annual pension cost**

For 2004, the City's annual pension cost was equal to their required contribution. Actual contributions were made based on the actual payroll paid rather than the estimated payroll used in the actuarial valuation. The required contribution was determined as part of the December 31, 2001 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) investment rate of return of 8%; (b) projected salary increases ranging from 4.5% to 8.66% per year; and (c) 2.5% per year cost of living increases. The actuarial value of plan assets was determined using methods that smooth the effect of short-term volatility in the market value of investments over a four-year period.

**Note 9 – Retirement Plans (Continued)**Defined Benefit Pension Plan (Continued)D. Three-year information

<u>Year Ending</u>	<u>Annually Required Contribution (ARC)</u>	<u>Percentage of ARC Contributed</u>	<u>Net Pension Obligation</u>
06-30-2004	\$ 97,653	100%	\$ -
06-30-2003	139,266	100%	-
06-30-2002	101,621	100%	-

Defined Contribution Pension Plan

One employee of the City participates in a defined contribution pension plan entitled "City of Bad Axe Group Pension Plan". The plan administrator is Manulife. Under the Plan agreement, the City is required to contribute an amount equal to 8.5% of the annual compensation paid to covered employees. Employees are required to contribute an amount equal to 2.5% of their annual compensation. Employees may also make voluntary non-deductible contributions to the Plan up to a maximum of 10% of their annual compensation. Compensation for Plan purposes does not include payments for overtime. Employee non-deductible voluntary contributions may only be withdrawn upon termination of employment, retirement or death. Benefits vest after ten years of service. Employees not wishing to participate in the plan must notify the plan administrator in writing.

Defined Contribution Pension Plan (Continued)

All contributions to the Plan are invested with Manulife under an Allocated Retirement Account. Each employee has 11 investment options from the security of a guaranteed account to the opportunities of an aggressive stock fund.

The following pension data is presented for the year ended June 30, 2004:

Total payroll	<u>\$1,222,466</u>
Total payroll for employees covered by the plan	<u>\$ 20,182</u>
Employer contribution percentage	8.5%
Employer contribution	<u>\$ 1,716</u>
Employee contribution percentage	2.5%
Required employee contributions	\$ 505
Employee non-deductible voluntary contributions	<u>-</u>
Total employee contributions	<u>\$ 505</u>

**Note 10 – Risk Management**

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees.

The City participates in the Michigan Municipal League Liability and Property Pool. The maximum insurance coverages are \$6,627,860 for property damage and \$1,000,000 for liability claims.

**Note 11 – Joint Ventures**

The City is a constituent member of the Bad Axe Fire Protection Association and the Central Huron Ambulance Service Association, which provides fire protection services and emergency ambulance services to the City of Bad Axe. The City has estimated that its percentage of contributions is 45% and 35% to Bad Axe Fire Protection Association and Central Huron Ambulance Service Association, respectively.

The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments of any of the above joint ventures in the near future.

Complete financial statements can be obtained from the administrative offices at the following locations:

Bad Axe Fire Protection Association  
420 S. Hanselman  
Bad Axe, Michigan 48413

Central Huron Ambulance Service Association  
291 W. Soper Road  
Bad Axe, Michigan 48413

**Note 12 – Restricted Fund Balance**

The following is a summary of the restricted fund balances of the governmental funds and discretely presented component units with management's designations:

<u>Restricted For</u>	<u>Special Revenue</u>	<u>Brick Street- Capital Assessment</u>	<u>Debt Service</u>	<u>DDA Streetscape</u>	<u>Library</u>
Capital Projects	\$ -	\$ 62,069	\$ -	\$ 562	\$ -
Capital Expenditures	-	-	-	-	20,045
Debt Service	-	14,690	-	-	-
Other Purposes	<u>354,462</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$354,462</u>	<u>\$ 62,069</u>	<u>\$ 14,690</u>	<u>\$ 562</u>	<u>\$ 20,045</u>

**Note 13 – Deferred Revenue**

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Taxes receivable	\$ 2,567	\$ -
Special assessments	\$246,000	\$ -

**Note 14 – Restatements**

**Implementation of new accounting standards**

As of and for the year ended June 30, 2004, the City implemented the following governmental Accounting Standards Board pronouncements:

**Statements**

- No. 34 – Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments
- No. 37 – Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus
- No. 38 – Certain Financial Statement Note Disclosures

**Interpretation**

- No. 6 – Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial statements.

The above pronouncements are all related to the new financial reporting requirements for all state and local governments. These pronouncements are scheduled for a phased implementation (based on the size of the government) through fiscal years ending in 2005. The City is required to implement the new requirements no later than the fiscal year ending June 30, 2004. The more significant of the changes required by the new standards include:

- Management's discussion and analysis;
- Basic financial statements that include:
  - Government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting;
  - Fund financial statements, consisting of a series of statements that focus on a government's major governmental funds and enterprise funds;
  - Schedule to reconcile the fund financial statements to the government-wide financial statements;
  - Notes to the basic financial statements;
- Required supplementary information, including certain budgetary schedules.



**Note 14 – Restatements (Continued)**

As a result of implementing these pronouncements for the fiscal year ended June 30, 2004, the following restatements were made to beginning net assets:

## Government-wide financial statements

Beginning net assets for governmental activities were determined as follows:

Fund balances of general, special revenue, capital project and debt service as of June 30, 2003	\$ 1,120,616
Add: correction for accounts receivable	128,803
Add: governmental capital assets, including general fixed assets, as of June 30, 2003, net of depreciation	3,444,648
Deduct: accrued interest payable as of June 30, 2003	(22,042)
Deduct: debt bonds payable as of June 30, 2003	(1,144,635)
Deduct: accumulated compensated absences liability as of June 30, 2003	(95,665)
Add: internal service fund activities as of June 30, 2003	<u>762,430</u>
Governmental net assets, restated, as of June 30, 2003	<u>\$ 4,194,155</u>

Beginning net assets for business-type activities were determined as follows:

Retained earnings of enterprise funds as of June 30, 2003	\$ 1,880,718
Reclassification of contributed equity	3,786,743
Bonds payable previously reported in long-term debt account group	(345,000)
Debt service fund assets	<u>13,648</u>
Business-type net assets, restated, as of June 30, 2003	<u>\$ 5,336,109</u>

Beginning net assets for component unit activities were determined as follows:

Fund balances of component units as of June 30, 2003	\$ 161,946
Add: Capital assets, including general fixed assets, as of June 30, 2003, net of depreciation	<u>337,172</u>
Component unit net assets, restated as of June 30, 2003	<u>\$ 499,118</u>

**Note 15 – Commitments and Contingencies****Commitments**

From 1996 to 2004 the City and Village of Port Austin have been jointly working on a project to provide purified drinking water from Lake Huron to residents of Port Austin and Bad Axe. The project would involve construction of 17 miles of pipeline, water towers and a water purification plant in Port Austin.

From 1999 through 2003, the City of Bad Axe received federal funding from the Environmental Protection Agency. These funds were spent on the construction of approximately eleven miles of pipeline, a new water tower and water line looping in the City of Bad Axe.

**Note 15 – Commitments and Contingencies (Continued)**

**Commitments (Continued)**

In 2004, the Village of Port Austin and City of Bad Axe formed the Huron Regional Water Authority (HWA).

In order to continue EPA funding and secure loan funding from the Rural Development Agency, the City was required to transfer title to the water lines and tower to the Huron Water Authority. The HWA will complete the pipeline and water plant and sell water to the City and Village. The City of Bad Axe has agreed to pay the debt service requirements of the HWA related to Rural Development loans of \$3,115,000 which will be used for pipeline completion. Repayment of these obligations will begin in fiscal year 2006 and will be funded with user rate increases. As of June 30, 2004, none of these bond funds had been received.

The HWA is also expected to borrow additional funds of \$8,220,000 in order to fund the construction of the water plant. The Village and City will share in the repayment of these funds in amounts approximately equal to their respective consumption of water.

In the accompanying proprietary fund financial statements the City has reduced fund equity by \$1,698,242 which represents the net book value of the water tower and water line improvements which were transferred to the Huron Water Authority.

**Contingencies**

The Environmental Protection Agency has threatened to charge the City \$2,031,750 which represents the 45% matching requirement for EPA funds received and spent on the Water System improvement referred to above. The City believes that it has no liability for this matter because those assets have been transferred to the Huron Water Authority; and as noted above, the City will be required to retire debt of \$3,115,000 to complete the pipeline project. The City believes that this commitment, along with its expected investment in the water plant, would honor the matching requirement.

## **Required Supplemental Information**

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Schedule of Funding Progress

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Covered Payroll	((b-a)/c) UAAL as a % of Covered Payroll
12/31/1999	\$ 546,368	\$ 733,008	\$ 186,640	75%	\$ 355,284	52.53%
12/31/2000	640,259	788,693	148,434	81%	382,040	38.85%
12/31/2001	1,724,554	2,455,114	730,560	70%	962,402	75.91%
12/31/2002	1,802,661	2,808,374	1,005,713	64%	1,053,851	95.43%
12/31/2003	2,114,421	3,699,445	1,585,024	57%	1,005,126	157.69%

**City of Bad Axe, Michigan**

**Required Supplementary Information  
Budgetary Comparison Schedule - General Fund  
Year Ended June 30, 2004**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue:</b>				
Property taxes	\$ 990,390	\$ 1,068,571	\$ 1,075,388	\$ 6,817
Licenses and permits	10,100	15,362	15,382	20
Federal sources	35,000	40,000	40,000	-
State sources	415,500	405,572	396,662	(8,910)
Local sources	121,000	121,500	126,010	4,510
Fines and forfeitures	10,000	10,000	9,845	(155)
Interest income	15,000	9,000	9,545	545
Rental income	3,000	3,000	3,000	-
Miscellaneous	109,550	118,663	128,673	10,010
<b>Total revenue</b>	<b>1,709,540</b>	<b>1,791,668</b>	<b>1,804,505</b>	<b>12,837</b>
<b>Expenditures:</b>				
General government:				
City council	18,700	20,723	19,501	1,222
Administration	272,275	363,588	391,303	(27,715)
Elections	2,600	2,968	2,137	831
Assessing	24,700	25,883	22,966	2,917
Buildings and grounds - City Hall	92,791	97,137	93,601	3,536
Buildings and grounds - City Park	57,650	65,859	54,622	11,237
<b>Total general government</b>	<b>468,716</b>	<b>576,158</b>	<b>584,130</b>	<b>(7,972)</b>
Public safety:				
Ambulance	8,655	8,655	8,655	-
Police:				
Administration/dispatch	142,650	162,025	164,804	(2,779)
K-9	800	7,000	12,267	(5,267)
Patrol service	309,300	281,899	281,258	641
Crossing guard/parking	3,000	3,000	3,368	(368)
Justice training	1,000	2,970	2,969	1
Code enforcement	42,999	44,999	44,482	517
Fire	100,000	94,480	94,480	-
<b>Total public safety</b>	<b>608,404</b>	<b>605,028</b>	<b>612,283</b>	<b>(7,255)</b>
Public works:				
Supervision	45,480	46,055	42,911	3,144
Leaves/yard/waste	145,285	141,485	127,639	13,846
Parking lots and alleys	39,750	32,781	32,959	(178)
Community service	9,650	9,718	9,133	585
Sidewalks	52,185	57,082	47,082	10,000
Building and yard	18,485	28,721	27,861	860
Street lights	64,850	67,000	62,684	4,316
<b>Total public works</b>	<b>375,685</b>	<b>382,842</b>	<b>350,269</b>	<b>32,573</b>

**City of Bad Axe, Michigan**

**Required Supplementary Information**  
**Budgetary Comparison Schedule - General Fund (Continued)**  
**Year Ended June 30, 2004**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Expenditures (continued):</b>				
Recreation and culture:				
Economic development	4,200	6,700	6,820	(120)
Other:				
Medical insurance	117,400	108,000	78,673	29,327
Life/disability insurance	3,500	3,500	1,830	1,670
Retirement contribution	65,000	65,000	63,690	1,310
Payroll taxes	62,000	62,000	60,000	2,000
Worker's compensation insurance	3,600	3,600	3,595	5
Other	9,600	9,600	8,433	1,167
Total other	261,100	251,700	216,221	35,479
Total expenditures	1,718,105	1,822,428	1,769,723	52,705
<b>Excess of Revenue Over (Under) Expenditures</b>	(8,565)	(30,760)	34,782	65,542
<b>Fund Balance - Beginning of year</b>	786,527	786,527	786,527	-
<b>Prior Period Adjustment</b>	-	-	91,959	91,959
<b>Fund Balance - End of year</b>	<u>\$ 777,962</u>	<u>\$ 755,767</u>	<u>\$ 913,268</u>	<u>\$ 157,501</u>

**City of Bad Axe, Michigan**

	Major Road Fund			Variance with
	Original Budget	Amended Budget	Actual	Amended Budget
<b>Revenue</b>				
Property taxes	\$ -	\$ -	\$ -	\$ -
State sources	174,000	174,000	194,732	20,732
Special assessments	-	-	-	-
Interest income	3,000	1,000	1,736	736
<b>Total revenue</b>	<b>177,000</b>	<b>175,000</b>	<b>196,468</b>	<b>21,468</b>
<b>Expenditures</b>				
Public works:				
Construction	15,740	11,040	1,216	9,824
Surface maintenance	106,960	12,973	4,643	8,330
Sweeping	10,815	10,815	10,859	(44)
Drainage	9,825	10,725	10,294	431
Trees & shrubs	13,550	14,750	12,352	2,398
Grading & dust control	1,075	1,350	1,130	220
Grass & weed control	1,350	1,400	1,579	(179)
Traffic signs/signals	3,070	3,070	1,838	1,232
Pavement marking	2,455	2,455	2,392	63
Snow & ice	32,334	30,571	30,770	(199)
Trunkline maintenance	6,432	6,432	1,209	5,223
Trunkline sweeping	7,732	7,732	3,526	4,206
Trunkline drainage	4,717	4,117	2,532	1,585
Trunkline trees & shrubs	3,310	3,310	1,154	2,156
Trunkline grass & weeds	585	585	211	374
Trunkline traffic signs/signals	8,065	10,965	8,150	2,815
Trunkline pavement marking	1,320	1,320	407	913
Trunkline snow & ice	38,150	10,158	10,285	(127)
Trunkline hauling snow	8,162	4,504	4,623	(119)
Administration fees	14,000	14,000	14,000	-
Fringe benefits	26,664	19,225	16,826	2,399
<b>Total expenditures</b>	<b>316,311</b>	<b>181,497</b>	<b>139,996</b>	<b>41,501</b>
<b>Excess of Revenue Over (Under)</b>				
<b>Expenditures</b>	(139,311)	(6,497)	56,472	62,969
<b>Other Financing Sources (Uses)</b>				
Transfers in	80,000	-	-	-
Transfers out	(36,000)	(36,000)	(40,388)	(4,388)
<b>Total other financing sources (uses)</b>	<b>44,000</b>	<b>(36,000)</b>	<b>(40,388)</b>	<b>(4,388)</b>
<b>Excess of Revenue and Other Financing Sources Over (Under)</b>				
<b>Expenditures and Other Financing Uses</b>	(95,311)	(42,497)	16,084	58,581
<b>Fund Balance - Beginning of year</b>	<b>124,420</b>	<b>124,420</b>	<b>124,420</b>	<b>-</b>
<b>Prior Period Adjustment</b>	<b>-</b>	<b>-</b>	<b>20,269</b>	<b>20,269</b>
<b>Fund Balance - End of year</b>	<b>\$ 29,109</b>	<b>\$ 81,923</b>	<b>\$ 160,773</b>	<b>\$ 78,850</b>

**Required Supplementary Information**  
**Budgetary Comparison Schedule - Major Special Revenue Funds**  
**Year Ended June 30, 2004**

Local Road Fund			
Original Budget	Amended Budget	Actual	Variance with Amended Budget
\$ 38,800	\$ 41,942	\$ 41,938	\$ (4)
58,779	69,379	77,638	8,259
605	605	-	(605)
-	580	586	6
98,184	112,506	120,162	7,656
21,575	18,900	10,653	8,247
87,885	19,547	77,353	(57,806)
11,850	11,850	11,731	119
15,700	21,600	22,186	(586)
23,125	21,425	16,697	4,728
2,610	2,110	1,268	842
3,115	3,115	4,095	(980)
6,665	6,665	3,859	2,806
2,690	2,690	3,224	(534)
26,230	24,544	23,744	800
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
11,000	11,000	11,000	-
16,700	15,000	14,626	374
229,145	158,446	200,436	(41,990)
(130,961)	(45,940)	(80,274)	(34,334)
106,000	36,000	40,388	4,388
-	-	-	-
106,000	36,000	40,388	4,388
(24,961)	(9,940)	(39,886)	(29,946)
34,665	34,665	34,665	-
-	-	16,575	16,575
\$ 9,704	\$ 24,725	\$ 11,354	\$ (13,371)



## **Other Supplemental Information**

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	Special Revenue Funds		
	County Road Millage	Parks and Recreation	Drug Law Enforcement
<b>Assets</b>			
Cash and cash equivalents	\$ 182,335	\$ 12,330	\$ 3,167
Receivables:			
Taxes	-	162	-
Other	-	-	-
Due from other funds	-	76,384	-
Total assets	<u>\$ 182,335</u>	<u>\$ 88,876</u>	<u>\$ 3,167</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ -	\$ 1,467	\$ -
Accrued payroll and benefits	-	4,663	-
Due to other funds	-	250	-
Deferred revenue	-	162	-
Total liabilities	-	6,542	-
<b>Fund Balances</b>			
Restricted:			
Capital projects	-	-	-
Debt service	-	-	-
Other purposes	182,335	-	-
Unrestricted	-	82,334	3,167
Total fund balances	<u>182,335</u>	<u>82,334</u>	<u>3,167</u>
Total liabilities and fund balances	<u>\$ 182,335</u>	<u>\$ 88,876</u>	<u>\$ 3,167</u>

**Other Supplemental Information**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2004**

Debt Service Fund	Capital Project Funds		Total Nonmajor Governmental Funds
Drain Debt	EPA Grant	DDA Streetscape	
\$ 14,690	\$ 718	\$ -	\$ 213,240
130	-	-	292
-	-	562	562
-	-	-	76,384
<u>\$ 14,820</u>	<u>\$ 718</u>	<u>\$ 562</u>	<u>\$ 290,478</u>
\$ -	\$ 718	\$ -	\$ 2,185
-	-	-	4,663
-	-	-	250
130	-	-	292
130	718	-	7,390
-	-	562	562
14,690	-	-	14,690
-	-	-	182,335
-	-	-	85,501
14,690	-	562	283,088
<u>\$ 14,820</u>	<u>\$ 718</u>	<u>\$ 562</u>	<u>\$ 290,478</u>

	Special Revenue Funds		
	County Road Millage	Parks and Recreation	Drug Law Enforcement
<b>Revenue</b>			
Property taxes	\$ 70,160	\$ 76,250	\$ -
State sources	-	3,598	-
Local sources	-	51,592	3,793
Interest income	1,438	143	8
Other	-	-	-
Total revenue	71,598	131,583	3,801
<b>Expenditures</b>			
Current:			
Public safety	-	-	1,755
Public works	-	-	-
Recreation and culture	-	104,573	-
Debt service	-	-	-
Total expenditures	-	104,573	1,755
<b>Excess of Revenues Over Expenditures</b>	71,598	27,010	2,046
<b>Fund Balances - Beginning of year</b>	110,737	55,324	1,121
<b>Fund Balances - End of year</b>	\$ 182,335	\$ 82,334	\$ 3,167

**Other Supplemental Information**  
**Combining Statement of Revenue, Expenditures, and Changes**  
**in Fund Balances - Nonmajor Governmental Funds**  
**Year Ended June 30, 2004**

Debt Service Fund	Capital Project Funds		Total Nonmajor Governmental Funds
Drain Debt	EPA Grant	DDA Streetscape	
\$ 133,720	\$ -	\$ -	\$ 280,130
6,296	-	-	9,894
-	-	-	55,385
212	-	-	1,801
-	2,021	-	2,021
140,228	2,021	-	349,231
-	-	-	1,755
-	2,021	-	2,021
-	-	-	104,573
132,798	-	-	132,798
132,798	2,021	-	241,147
7,430	-	-	108,084
7,260	-	562	175,004
<u>\$ 14,690</u>	<u>\$ -</u>	<u>\$ 562</u>	<u>\$ 283,088</u>

**Other Supplemental Information**  
**Budgetary Comparison Schedule - Nonmajor Governmental Funds**  
**Year Ended June 30, 2004**

**Special Revenue Fund - County Road Millage**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Property taxes	\$ 70,000	\$ 70,000	\$ 70,160	\$ 160
Interest income	3,000	1,400	1,438	38
Total revenue	73,000	71,400	71,598	198
<b>Other Financing Uses - Transfers out</b>	<u>(150,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Excess of Revenue Over (Under) Expenditures and Other Financing Uses</b>	(77,000)	71,400	71,598	198
<b>Fund Balance - Beginning of year</b>	<u>110,737</u>	<u>110,737</u>	<u>110,737</u>	<u>-</u>
<b>Fund Balance - End of year</b>	<u>\$ 33,737</u>	<u>\$ 182,137</u>	<u>\$ 182,335</u>	<u>\$ 198</u>

**Special Revenue Fund - Drug Law Enforcement**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Local sources	\$ 500	\$ 3,800	\$ 3,793	\$ (7)
Interest income	15	15	8	(7)
Total revenue	515	3,815	3,801	(14)
<b>Expenditures</b>				
Public safety:				
Operating supplies	<u>500</u>	<u>500</u>	<u>1,755</u>	<u>(1,255)</u>
<b>Excess of Revenue Over Expenditures</b>	15	3,315	2,046	(1,269)
<b>Fund Balance - Beginning of year</b>	<u>1,121</u>	<u>1,121</u>	<u>1,121</u>	<u>-</u>
<b>Fund Balance - End of year</b>	<u>\$ 1,136</u>	<u>\$ 4,436</u>	<u>\$ 3,167</u>	<u>\$ (1,269)</u>

**Other Supplemental Information**  
**Budgetary Comparison Schedule - Nonmajor Governmental Funds**  
**Year Ended June 30, 2004**

**Special Revenue Fund - Parks and Recreation**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Property taxes	\$ 70,550	\$ 75,697	\$ 76,250	\$ 553
State sources	3,598	3,598	3,598	-
Local sources	41,700	51,518	51,592	74
Interest income	400	400	143	(257)
Total revenue	116,248	131,213	131,583	370
<b>Expenditures</b>				
Recreation and culture:				
Administration	44,700	36,133	32,753	3,380
Day camp	16,700	19,093	17,784	1,309
Senior programs	9,950	5,506	6,142	(636)
Summer programs/events	9,150	10,717	10,768	(51)
Fall programs/events	2,200	4,029	4,028	1
Winter programs/events	2,500	3,298	3,298	-
Spring programs/events	700	120	147	(27)
Tournaments & special events	11,100	6,093	6,742	(649)
Administration	3,300	3,300	3,300	-
Fringe benefits	29,400	22,050	19,611	2,439
Total expenditures	129,700	110,339	104,573	5,766
<b>Excess of Revenue Over (Under)</b>				
<b>Expenditures</b>	(13,452)	20,874	27,010	6,136
<b>Fund Balance - Beginning of year</b>	55,324	55,324	55,324	-
<b>Fund Balance - End of year</b>	<u>\$ 41,872</u>	<u>\$ 76,198</u>	<u>\$ 82,334</u>	<u>\$ 6,136</u>

**Other Supplemental Information**  
**Budgetary Comparison Schedule - Nonmajor Governmental Funds**  
**Year Ended June 30, 2004**

**Debt Service Fund - Drain Debt**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Property taxes	\$ 124,115	\$ 134,267	\$ 133,720	\$ (547)
State sources	6,476	6,476	6,296	(180)
Interest income	300	300	212	(88)
Total revenue	130,891	141,043	140,228	(815)
<b>Expenditures</b>				
Drains	10,925	10,925	10,480	445
Principal	76,566	76,566	76,566	-
Interest expense	45,546	45,546	45,546	-
Bad Axe drain phase I	200	200	206	(6)
Total expenditures	133,237	133,237	132,798	439
<b>Excess of Revenue Over (Under)</b>				
<b>Expenditures</b>	(2,346)	7,806	7,430	(376)
<b>Fund Balance - Beginning of year</b>	7,260	7,260	7,260	-
<b>Fund Balance - End of year</b>	<u>\$ 4,914</u>	<u>\$ 15,066</u>	<u>\$ 14,690</u>	<u>\$ (376)</u>



**Other Supplemental Information**  
**Combining Balance Sheet**  
**Component Units**  
**June 30, 2004**

	<u>Economic Development Corporation</u>	<u>Downtown Development Authority</u>	<u>Library</u>	<u>Total</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 4,128	\$ 62,308	\$ 85,375	\$ 151,811
Receivables:				
Accrued interest and other	-	-	166	166
Prepaid	-	-	1,131	1,131
Total assets	<u>\$ 4,128</u>	<u>\$ 62,308</u>	<u>\$ 86,672</u>	<u>\$ 153,108</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ -	\$ 5,219	\$ 1,100	\$ 6,319
Accrued payroll and benefits	-	-	3,449	3,449
Due to other funds	-	-	13,032	13,032
Deferred revenue	-	-	166	166
Total liabilities	-	5,219	17,747	22,966
<b>Fund Balances</b>				
Restricted:				
Capital expenditures	-	-	20,045	20,045
Unrestricted	<u>4,128</u>	<u>57,089</u>	<u>48,880</u>	<u>110,097</u>
Total fund balances	<u>4,128</u>	<u>57,089</u>	<u>68,925</u>	<u>130,142</u>
Total liabilities and fund balances	<u>\$ 4,128</u>	<u>\$ 62,308</u>	<u>\$ 86,672</u>	<u>\$ 153,108</u>

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**Other Supplemental Information  
Reconciliation of the Combining Balance Sheet -  
Component Units  
to the Statement of Net Assets  
June 30, 2004**

Total fund balances of component units \$ 130,142

Amounts reported for component units in the statement of net assets  
are different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported in the funds.

Capital assets	662,181	
Accumulated depreciation	<u>(357,433)</u>	<u>304,748</u>

Net assets of component units \$ 434,890

**Other Supplemental Information**  
**Combining Statement of Revenue, Expenditures, and Changes**  
**in Fund Balances - Component Units**  
**Year Ended June 30, 2004**

	<u>Economic Development Corporation</u>	<u>Downtown Development Authority</u>	<u>Library</u>	<u>Total</u>
<b>Revenue</b>				
Property taxes	\$ -	\$ 77,024	\$ 76,250	\$ 153,274
State sources	-	-	12,858	12,858
Local sources	-	324	54,202	54,526
Interest income	-	-	778	778
Rental income	-	-	11,915	11,915
Other	-	-	34,832	34,832
	<u>-</u>	<u>-</u>	<u>34,832</u>	<u>34,832</u>
Total revenue	-	77,348	190,835	268,183
<b>Expenditures</b>				
Current:				
Public works	-	91,010	-	91,010
Recreation and culture	-	-	182,223	182,223
Debt service	-	26,754	-	26,754
	<u>-</u>	<u>26,754</u>	<u>-</u>	<u>26,754</u>
Total expenditures	-	117,764	182,223	299,987
	<u>-</u>	<u>117,764</u>	<u>182,223</u>	<u>299,987</u>
<b>Excess of Revenue Over (Under)</b>				
<b>Expenditures</b>	-	(40,416)	8,612	(31,804)
<b>Fund Balances - Beginning of year</b>	<u>4,128</u>	<u>97,505</u>	<u>60,313</u>	<u>161,946</u>
<b>Fund Balances - End of year</b>	<u>\$ 4,128</u>	<u>\$ 57,089</u>	<u>\$ 68,925</u>	<u>\$ 130,142</u>

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**Other Supplemental Information**  
**Reconciliation of the Statement of Revenue, Expenditures,**  
**and Changes in Fund Balances - Component Units**  
**to the Statement on Activities**  
**Year Ended June 30, 2004**

Net change in fund balances - total component units \$ (31,804)

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	22,650	
Depreciation expense	<u>(55,074)</u>	<u>(32,424)</u>

Change in net assets of component units \$ (64,228)

**Other Supplemental Information**  
**Budgetary Comparison Schedule - Component Units**  
**Year Ended June 30, 2004**

**Component Unit - Downtown Development Authority**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget</u>
<b>Revenue</b>				
Property taxes	\$ 59,000	\$ 67,000	\$ 77,024	\$ 10,024
Local sources	<u>-</u>	<u>275</u>	<u>324</u>	<u>49</u>
Total revenue	59,000	67,275	77,348	10,073
<b>Expenditures</b>				
Current:				
Public works:				
Contractual Services	10,000	76,900	89,983	(13,083)
Rent	300	300	-	300
Miscellaneous	-	1,200	1,027	173
Debt service	<u>26,755</u>	<u>26,755</u>	<u>26,754</u>	<u>1</u>
Total expenditures	<u>37,055</u>	<u>105,155</u>	<u>117,764</u>	<u>(12,609)</u>
<b>Excess of Revenue Over (Under)</b>				
<b>Expenditures</b>	21,945	(37,880)	(40,416)	(2,536)
<b>Fund Balance - Beginning of year</b>	<u>97,505</u>	<u>97,505</u>	<u>97,505</u>	<u>-</u>
<b>Fund Balance - End of year</b>	<u><u>\$ 119,450</u></u>	<u><u>\$ 59,625</u></u>	<u><u>\$ 57,089</u></u>	<u><u>\$ (2,536)</u></u>

**Other Supplemental Information**  
**Budgetary Comparison Schedule - Component Units**  
**Year Ended June 30, 2004**

**Component Unit - Library**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget</u>
<b>Revenue</b>				
Property taxes	\$ 71,000	\$ 71,000	\$ 76,250	\$ 5,250
State sources	8,000	8,000	12,858	4,858
Local sources	62,500	62,500	54,202	(8,298)
Interest income	900	900	778	(122)
Rental income	10,000	10,000	11,915	1,915
Other	18,600	18,600	34,832	16,232
	<u>171,000</u>	<u>171,000</u>	<u>190,835</u>	<u>19,835</u>
<b>Total revenue</b>	171,000	171,000	190,835	19,835
<b>Expenditures</b>				
Current:				
Recreation and culture:				
Salaries and fringe benefits	124,000	124,000	116,033	7,967
Professional services	500	500	1,112	(612)
Books, periodicals, and media	31,500	31,500	25,912	5,588
Supplies	14,500	14,500	14,592	(92)
Utilities	10,800	10,800	9,361	1,439
Capital outlay	3,000	3,000	3,285	(285)
Contractual services	4,200	4,200	4,196	4
Other	8,500	8,500	7,732	768
	<u>197,000</u>	<u>197,000</u>	<u>182,223</u>	<u>14,777</u>
<b>Total expenditures</b>	197,000	197,000	182,223	14,777
<b>Excess of Revenue Over (Under)</b>				
<b>Expenditures</b>	(26,000)	(26,000)	8,612	34,612
<b>Fund Balance - Beginning of year</b>	<u>60,313</u>	<u>60,313</u>	<u>60,313</u>	<u>-</u>
<b>Fund Balance - End of year</b>	<u>\$ 34,313</u>	<u>\$ 34,313</u>	<u>\$ 68,925</u>	<u>\$ 34,612</u>

**Schedule of Drain Assessments Payable - Bad Axe Drain - Phase I**  
**Principal and Interest Obligation as of June 30, 2004**

<u>Maturity Date</u>	<u>Principal</u>	<u>Rate</u>	<u>Interest</u>	<u>Total</u>
03/01/05	\$ 24,065.53	7.000%	\$ 5,053.45	\$ 29,118.98
03/01/06	24,065.53	7.000%	3,368.87	27,434.40
03/01/07	<u>24,065.53</u>	7.000%	<u>1,684.28</u>	<u>25,749.81</u>
	<u>\$ 72,196.59</u>		<u>\$ 10,106.60</u>	<u>\$ 82,303.19</u>

**Schedule of Drain Assessments Payable - Bad Axe Drain - Phase II**  
**Principal and Interest Obligation as of June 30, 2004**

<u>Maturity Date</u>	<u>Principal</u>	<u>Rate</u>	<u>Interest</u>	<u>Total</u>
03/01/05	\$ 52,500.00	6.720%	\$ 35,280.00	\$ 87,780.00
03/01/06	52,500.00	6.720%	31,752.00	84,252.00
03/01/07	52,500.00	6.720%	28,224.00	80,724.00
03/01/08	52,500.00	6.720%	24,696.00	77,196.00
03/01/09	52,500.00	6.720%	21,168.00	73,668.00
03/01/10	52,500.00	6.720%	17,640.00	70,140.00
03/01/11	52,500.00	6.720%	14,112.00	66,612.00
03/01/12	52,500.00	6.720%	10,584.00	63,084.00
03/01/13	52,500.00	6.720%	7,056.00	59,556.00
03/01/14	52,500.00	6.720%	3,528.00	56,028.00
	<u>\$ 525,000.00</u>		<u>\$ 194,040.00</u>	<u>\$ 719,040.00</u>



**Schedule of Drain Assessments Payable - Crumback Drain  
Principal and Interest Obligation as of June 30, 2004**

<u>Maturity Date</u>	<u>Principal</u>	<u>Rate</u>	<u>Interest</u>	<u>Total</u>
03/01/05	6,826.40	4.550%	3,071.88	9,898.28
03/01/06	6,826.40	4.650%	2,730.56	9,556.96
03/01/07	6,826.40	4.750%	2,389.24	9,215.64
03/01/08	6,826.40	4.700%	2,047.92	8,874.32
03/01/09	6,826.40	4.750%	1,706.60	8,533.00
03/01/10	6,826.40	4.800%	1,365.28	8,191.68
03/01/11	6,826.40	4.900%	1,023.96	7,850.36
03/01/12	6,826.40	5.000%	682.64	7,509.04
03/01/13	6,826.40	5.000%	341.32	7,167.72
	<u>\$ 61,437.60</u>		<u>\$ 15,359.40</u>	<u>\$ 76,797.00</u>

**Schedule of Drain Assessments Payable - Bissett and Branches Drain  
Principal Obligation as of June 30, 2004**

<u>Maturity Date</u>	<u>Principal</u>	<u>Total</u>
03/01/05	<u>\$ 168.82</u>	<u>\$ 168.82</u>

**Schedule of Land Contract  
Principal and Interest Obligation as of June 30, 2004**

<u>Maturity Date</u>	<u>Principal</u>	<u>Rate</u>	<u>Interest</u>	<u>Total</u>
01/15/05	\$ 5,626.27	7.000%	\$ 7,589.73	\$ 13,216.00
01/15/06	6,020.11	7.000%	7,195.89	13,216.00
01/15/07	6,441.52	7.000%	6,774.48	13,216.00
01/15/08	6,892.42	7.000%	6,323.58	13,216.00
01/15/09	<u>83,444.40</u>	7.000%	<u>5,841.11</u>	<u>89,285.51</u>
	<u>\$ 108,424.72</u>		<u>\$ 33,724.79</u>	<u>\$ 142,149.51</u>

**Schedule of Signature Bank Note Payable - Land  
Principal and Interest Obligation as of June 30, 2004**

<u>Maturity Date</u>	<u>Principal</u>	<u>Rate</u>	<u>Interest</u>	<u>Total</u>
07/01/04	\$ 10,000.00	3.750%	\$ 3,000.00	\$ 13,000.00
07/01/05	10,000.00	3.750%	2,625.00	12,625.00
07/01/06	10,000.00	3.750%	2,250.00	12,250.00
07/01/07	10,000.00	3.750%	1,875.00	11,875.00
07/01/08	10,000.00	3.750%	1,500.00	11,500.00
07/01/09	10,000.00	3.750%	1,125.00	11,125.00
07/01/10	10,000.00	3.750%	750.00	10,750.00
07/01/11	10,000.00	3.750%	375.00	10,375.00
	<u>\$ 80,000.00</u>		<u>\$ 13,500.00</u>	<u>\$ 93,500.00</u>

**Schedule of DDA Streetscape Installment Contract  
Principal and Interest Obligation as of June 30, 2004**

<u>Maturity Date</u>	<u>Principal</u>	<u>Rate</u>	<u>Interest</u>	<u>Total</u>
10/01/04	\$ 12,792.42	4.000%	\$ 4,714.89	\$ 17,507.31
10/01/05	13,304.12	4.000%	4,203.19	17,507.31
10/01/06	13,836.28	4.000%	3,671.03	17,507.31
10/01/07	14,389.73	4.000%	3,117.58	17,507.31
10/01/08	14,965.32	4.000%	2,541.99	17,507.31
10/01/09	15,563.93	4.000%	1,943.38	17,507.31
10/01/10	16,186.49	4.000%	1,320.82	17,507.31
10/01/11	16,833.95	4.000%	673.36	17,507.31
	<u>\$ 117,872.24</u>		<u>\$ 22,186.24</u>	<u>\$ 140,058.48</u>

**Schedule of DDA Streetscape Installment Contract  
Principal and Interest Obligation as of June 30, 2004**

<u>Maturity Date</u>	<u>Principal</u>	<u>Rate</u>	<u>Interest</u>	<u>Total</u>
10/01/04	\$ 6,756.56	4.000%	\$ 2,490.26	\$ 9,246.82
10/01/05	7,026.82	4.000%	2,220.00	9,246.82
10/01/06	7,307.90	4.000%	1,938.92	9,246.82
10/01/07	7,600.21	4.000%	1,646.61	9,246.82
10/01/08	7,904.22	4.000%	1,342.60	9,246.82
10/01/09	8,220.39	4.000%	1,026.43	9,246.82
10/01/10	8,549.20	4.000%	697.62	9,246.82
10/01/11	8,891.17	4.000%	355.65	9,246.82
	<u>\$ 62,256.47</u>		<u>\$ 11,718.09</u>	<u>\$ 73,974.56</u>

**Schedule of Brick Street Assessment Installment Contract  
Principal and Interest Obligation as of June 30, 2004**

<u>Maturity Date</u>	<u>Principal</u>	<u>Rate</u>	<u>Interest</u>	<u>Total</u>
06/01/05	\$ 24,600.00	1.850%	\$ 8,972.34	\$ 33,572.34
06/01/06	24,600.00	2.000%	7,109.40	31,709.40
06/01/07	24,600.00	2.500%	6,617.40	31,217.40
06/01/08	24,600.00	2.850%	6,002.40	30,602.40
06/01/09	24,600.00	3.150%	5,301.30	29,901.30
06/01/10	24,600.00	3.350%	4,526.40	29,126.40
06/10/11	24,600.00	3.550%	3,702.30	28,302.30
06/10/12	24,600.00	3.700%	2,829.00	27,429.00
06/10/13	24,600.00	3.850%	1,918.80	26,518.80
06/10/14	24,600.00	3.950%	971.70	25,571.70
	<u>\$ 246,000.00</u>		<u>\$ 47,951.04</u>	<u>\$ 293,951.04</u>

**Schedule of Refunding Bond Indebtedness**  
**Issue Date August 27, 1992**  
**Principal and Interest Obligation as of June 30, 2004**

<u>Maturity Date</u>	<u>Principal</u>	<u>Rate</u>	<u>Interest</u>	<u>Total</u>
12/01/04			\$ 6,440.00	\$ 6,440.00
06/01/05	\$ 115,000.00	5.700%	6,440.00	121,440.00
12/01/05			3,162.50	3,162.50
06/01/06	<u>110,000.00</u>	5.750%	<u>3,162.50</u>	<u>113,162.50</u>
	<u>\$ 225,000.00</u>		<u>\$ 19,205.00</u>	<u>\$ 244,205.00</u>



**Schedule of Water Supply and Sewage Disposal Bonds - Series B**

**Issue Date December 1, 1996**

**Principal and Interest Obligation as of June 30, 2004**

<u>Maturity Date</u>	<u>Principal</u>	<u>Rate</u>	<u>Interest</u>	<u>Total</u>
12/01/04	\$ 150,000.00	4.450%	\$ 16,071.70	\$ 166,071.70
06/01/05			12,734.55	12,734.55
12/01/05	175,000.00	4.500%	12,734.20	187,734.20
06/01/06			8,797.05	8,797.05
12/01/06	175,000.00	4.625%	8,796.70	183,796.70
06/01/07			4,750.00	4,750.00
12/01/07	<u>200,000.00</u>	4.750%	<u>4,750.00</u>	<u>204,750.00</u>
	<u>\$ 700,000.00</u>		<u>\$ 68,634.20</u>	<u>\$ 768,634.20</u>

**Schedule of Water Supply and Sewage Disposal Bonds - Series A**

**Issue Date December 1, 1996**

**Principal and Interest Obligation as of June 30, 2004**

<u>Maturity Date</u>	<u>Principal</u>	<u>Rate</u>	<u>Interest</u>	<u>Total</u>
12/01/04	\$ 50,000.00	7.125%	\$ 44,825.00	\$ 94,825.00
06/01/05			43,043.75	43,043.75
12/01/05	50,000.00	7.125%	43,043.75	93,043.75
06/01/06			41,262.50	41,262.50
12/01/06	50,000.00	7.125%	41,262.50	91,262.50
06/01/07			39,481.25	39,481.25
12/01/07	50,000.00	7.125%	39,481.25	89,481.25
06/01/08			37,700.00	37,700.00
12/01/08	175,000.00	4.850%	37,700.00	212,700.00
06/01/09			33,456.25	33,456.25
12/01/09	175,000.00	4.950%	33,456.25	208,456.25
06/01/10			29,125.00	29,125.00
12/01/10	200,000.00	5.000%	29,125.00	229,125.00
06/01/11			24,125.00	24,125.00
12/01/11	200,000.00	5.000%	24,125.00	224,125.00
06/01/12			19,125.00	19,125.00
12/01/12	200,000.00	5.000%	19,125.00	219,125.00
06/01/13			14,125.00	14,125.00
12/01/13	200,000.00	5.000%	14,125.00	214,125.00
06/01/14			9,125.00	9,125.00
12/01/14	200,000.00	5.000%	9,125.00	209,125.00
06/01/15			4,125.00	4,125.00
12/01/15	200,000.00	4.125%	4,125.00	204,125.00
	<u>\$ 1,750,000.00</u>		<u>\$ 634,212.50</u>	<u>\$ 2,384,212.50</u>

**HYZER, HILL, KUZAK & CO., P.C.**

Certified Public Accountants

1242 Sand Beach Road

P.O. Box 326

Bad Axe, MI 48413-0326

Phone: (989) 269-9541 • FAX: (989) 269-6777

Bruce Hill  
Donald Kuzak  
Michael Doerr

December 10, 2004

City of Bad Axe  
300 East Huron Avenue  
Bad Axe, MI 48413

Dear City Manager and Finance Committee:

In planning and performing our audit of the financial statements of the City of Bad Axe for the year ended June 30, 2004, we considered the City's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This report does not affect our report dated December 10, 2004 on the financial statements of the City of Bad Axe.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various City personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,



Hyzer, Hill, Kuzak & Co., P. C.

### Changes in Employee Status

Each department head is responsible for hiring and terminating employees. However, the communication between department heads and the payroll department needs to be improved so that payroll is notified of employee hirings or terminations (whether temporary or permanent). We suggest that the payroll department develop a form which department heads would prepare for changes in employee status.

### Payment of Accrued Sick Time at Termination

The collective bargaining agreements for the Police department and DPW employees stipulate the requirements for payment of accrued sick time at termination. However, there is no written policy for vesting or payment of sick time at termination for non-union personnel.

We recommend that the City develop a policy to address the vesting and payment of accrued sick leave upon termination. This policy should be communicated to existing employees and be included in the personnel manual.

### General Procedures on Software

The City should develop a manual with detailed steps on how to operate software packages. When someone is on vacation or leave, another individual should be able to do the required steps without having to call for support.

### Vendor Invoices

Vendor invoices are often received by or routed to department heads. Although the department head is responsible for expense coding the invoice and approving it for payment, the accounting department does not maintain control over the invoice. Consequently, invoices may not be recorded in the proper period and the risk of losing vendor discounts is increased. A procedure should be developed whereby all invoices are received by accounts payable and distributed to department heads for approval after they are properly logged in. Accounts payable should then review such listing for any invoices received but not processed.

### Utility Billing Adjustments

The utility billing clerk should not have total control over utility bills. Any adjustments made to an account should be recorded on a standardized form and signed off by another official and adjusted against the accounts receivable ledger by the City Clerk. A monthly balancing should then occur between the utility biller and City Clerk.

### Disaster Recovery Plan

The City does maintain computer system backup tapes offsite, but no other formal policy has been adopted if a disaster should hit the City of Bad Axe. The City should contact BS & A for guidance in a disaster recovery situation or form an agreement with another local government for use of their systems in processing payables, payroll, etc. This information should be documented and be readily available in an emergency situation.

### Library Cash Receipts

We believe that the use of a cash register would provide a better record of over the counter cash collections in the Library. The use of the register would provide a better paper trail in reconciling cash deposits and proper revenue accounts.